CLABBY ANALYTICS

Opinion

How x86 and the Economic Recovery Have Positioned Microsoft for a Return to Strong Growth

Back in February, 2010, I started putting together a report on how x86 multi-core processors might change the information technology (IT) marketplace. My theory was that x86 multi-cores would encroach on Hewlett-Packard (HP) Itanium-based systems, Sun (now Oracle) UltraSPARC-based systems, and IBM Power Systems in the midrange of the market — and that Linux and Windows would be major beneficiaries of that trend.

The only problem with this theory was that I could not prove it because *Clabby Analytics* does not conduct surveys. So I looked for other sources. I contacted research firms that do conduct surveys — but no one that I spoke to was planning x86 multi-core research. I spoke to various vendors, and found very little useful data. And I combed the web looking for proof points that x86 multi-core use might be driving growth in Linux and Windows market share — but found nothing. So, in March, I dropped my multi-core line of inquiry.

Last week, however, an unexpected gift (the results of a recent IT market survey) from Tech Target arrived. For those not familiar with Tech Target, the company is an invaluable repository of IT information. On its website (www.techtarget.com) a variety of topics, opinions, news articles, and reports on various IT topics (such as CIO/IT strategy, systems platforms, networking, security, enterprise applications, and vertical applications) can be found — as well as practical advice from real-world technology practitioners. Further, Tech Target regularly surveys its reader/viewer base, helping IT strategists and planners as well as managers and administrators gain insights into important industry trends.

As I examined the Tech Target survey, I finally found proof that x86 multi-core adoption was driving an increase in Microsoft Windows Server sales. And, surprisingly, I found that Linux growth had gone flat.

The Tech Target Survey — Key Findings

First, let me thank Matt Stansberry, the executive editor of Tech Target's Data Center and Virtualization Media Group for sharing this data.

Next, I've separated Tech Target's findings into five categories:

1. The effect of the economic recovery on IT;
2. Systems/server market trends;
3. Green;
4. Cloud; and,
5. Systems management.

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The key finding with respect to the economic recovery is this: **budgets are back in the black**. Last year 40% of shops were facing budget cuts, this year only 20% are. And nearly half are getting budget increases in 2010. In correlation to that trend, *growth is coming from increased capacity demands*.

With respect to the server marketplace, the key findings were:

- Windows growth as a server platform is exploding. While Linux is second largest, it's growth is flat over last year. Windows Server deployment is huge, RHEL is holding steady with 40% adoption, Novell SUSE tanked, and Oracle's Linux offering gained ground.
- Dell (a pure x86 vendor) gained market share across all server form factors over 2009.
- Blade growth stagnated for two years and adoption even seems to be declining. Of the people who are buying blades, Hewlett-Packard is taking off with the leadership.
- 76% of respondents aren't interested in UCS (Cisco or HP's converged infrastructure servers). Those that are, are buying into the promise of increased performance and, to a much lesser extent, the possibility of less management and integration headaches.

With regard to green (energy efficient computing) — **the economy killed green IT**. Half of the respondents described reducing data center energy use as very important in 2009, versus 34% in 2010. For 20% it's not even a priority this year, versus 14% last year.

And, with respect to cloud computing, the key findings were:

- Cloud computing: 69% of respondents are not considering cloud. 10% will implement private clouds in the next 12 months while 7% have already implemented private clouds, 6% will implement public clouds, 5% have implemented both private and public offerings, and 3% have implemented public clouds.
- Of companies that aren't considering cloud computing, the number one concern is security (38% cited it), other barriers to adoption include applications that don't translate to the cloud architecture, no chargeback or metering in place in the companies, and compliance issues.
- For the people who are considering cloud, the primary reason is to reduce infrastructure costs, followed by cost/flexibility benefits over traditional hosting/co-location solutions. IT managers also want more scalable infrastructure and less in-house IT staffing costs.

Finally, in the systems management space, the key finding was:

- 30% of IT shops say they're increasing spending on systems management tools (a huge boost over last year's 9%), with the primary drivers being automating manual processes and performance management. Additionally, people are a little less price sensitive this year and existing vendor relationships mean less (22% in '09 versus 15% in 2010).

Clabby Analytics Comments on These Findings

Those of you who follow *Clabby Analytics* know that we regularly conduct in-person research all around the globe. And you also know that we tend to pick-on IT research firms that promote their research trends/views without considering markets other than North America and Western Europe. So the following opinions represent our view of worldwide computer market trends based upon observations from all around the world.

First, with respect to *IT budgets now being in the black — with demand coming from the need for increased capacity*: yes, we see this trend — but it is geographically dependent. This trend is manifesting in the US as the economic recovery gains speed. We see some increased growth coming in Western Europe — but not in Southern Europe (Spain, Italy, and Greece are still reeling from the effects of the economic downturn). In the Middle East, Saudi Arabia is continuing to spend — but other countries are more reserved (and capacity increases are still low). Capacity demands are picking-up in India and China — largely driven by outsourcing (enterprises have outsourced a lot of computing to these countries — and as capacity needs increase, these countries will benefit). Finally, as near as I can tell, there has been little demand for more capacity in Southeast Asia and in South America (except Brazil — again driven by outsourcing).

But the more interesting element of this increased demand is related to which systems IT buyers are buying. In November of 2009, *Clabby Analytics* published a report that stated that we believed that the market was consolidating around three system architectures: x86 multi-cores, and IBM's Power Systems and System z (mainframes). We described why we thought Itanium-based servers were on the way out — and we described why we thought Sun servers would fade into the darkness. We also expressed our view that x86 multi-cores would perform strongly. Since then, look what's happened:

- According to Gartner, Oracle's unit shipments have declined about 30% (see Bob Evan's story at http://mobile.informationweek.com/10251/show/c7b14d8d9b2d4f23e7e9a4998e3ceb5d&t=adc70c4352675b87cdb363b4410d32c8 about Oracle's market performance). Clearly the need for more capacity on this platform is being addressed by other servers/vendors.
- HP Itanium sales have declined strongly — and I see no signs of a strong recovery either. When I wrote: "Should You Fire Your CIO for Recommending Itanium?" (available at: http://www.clabbyanalytics.com/uploads/Fire_CIO_Final.pdf) I observed that "HP's Business Critical Systems Division (BCS) is in big trouble (this is the division that sells HP's Itanium-based servers). Over the past year, this division has recorded quarterly drops of -22%, -33%, -30%, -29%. And given that HP sells about 85% of all Itanium servers, this shows us that Itanium is in big

trouble". I don't believe demands for capacity on Itanium-based servers will return — in large part due to the increasing overlap of x86 multi-cores and Itanium.

- Also in Bob Evan's article, Gartner is credited with the observation that IBM "gained share in x86, UNIX and high-end systems in the first quarter". This partially bolsters my assertion that the market is converging around x86 architecture and Power Systems — only the mainframe has yet to recover. And I see this coming when IBM releases a new mainframe and when IT buyers demonstrate that they are willing to pay for high-ticket items again.

> ***If the market is indeed gravitating toward x86 multi-cores, then it must be noted that two operating environments dominate the x86 landscape: Windows and Linux. And this is where the Tech Target research becomes so valuable to my initial assertion that Windows Server is positioned for strong growth. The way I see it, Microsoft has a strong presence around the world — and as IT buyers gravitate toward x86 multi-cores, it looks like they're going to overwhelmingly choose Windows — at least in the short term. (Note to vendors: Those of you who haven't might want to start spending some time and money building up your Windows strategy and offerings and improving your relationship with Microsoft…).***

With regard to Tech Target's findings on green and cloud, *Clabby Analytics* has already taken the position that "green" is geographically dependent. I remember being in Brazil a few years ago asking some green questions — and the respondent said "Hey Joe, we have bio, hydro, nuclear — and now huge oil reserves — consider that when you talk about green to us". Meanwhile, in the Philippines (where most energy is currently imported), green is a critical consideration. So, we fully understand Tech Target's finding that green got hammered.

With regard to Tech Target's findings on cloud and system management, these are also consistent with our findings — especially as regards security. We find the implementation/deployment problems with clouds to be the same as were found in grid computing years ago, as we indicated in our recent Nastel report: "but the problem with grid computing was that the management of applications across distributed resources was too complex (and also too difficult to secure) — hence, grid applications were confined behind-the-firewall where they could be more easily managed and contained".
But also in our Nastel report we observe that: "the lesson that we all should have learned from grid computing is that the most important element in making a distributed computing model such as cloud computing work is application management. We have to know where our resources are; what service level those resources provide (such as security, resiliency, and scalability characteristics) — and we have to understand how our applications and databases behave when using those distributed cloud resources".

> ***In short, we fully understand why enterprises are now budgeting to invest more heavily in systems management for distributed systems/cloud environments. It is a logical next step as the computing world prepares for automated management of the cloud.***

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Summary Observations

In summary, the Tech Target survey gives us some important data points that corroborate our view that the server market is consolidating. It also contained a big surprise: Windows Server is growing strongly — much more strongly than Linux — which confirms a trend that we saw way back in February but had difficulty proving. Finally, the obstacles to cloud computing are the same as they were to grids — but the surrounding management environment has improved tremendously. So it does not surprise us that more money is now being budgeted for automated systems management tools. We also observe that in North America and Western Europe, human labor related to systems management is expensive — so another big driver for buying systems management software may well be to help drive down the cost of operations.

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